

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

INKSTER HOUSING COMMISSION

Financial Statements

December 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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As management of the Inkster Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Inkster Housing Commission's financial activities for the FYE 12/31/04. This discussion and analysis letter of the Inkster Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Inkster Housing Commission Funds:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 12/31/04:

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Change</u>
Public Housing Operating Subsidy	2,845,048	2,668,205	176,843
Capital Fund Program Grants	2,715,868	1,816,526	899,342
ROSS Grant	22,408	29,204	(6,796)
Drug Elimination Grant	0	53,668	(53,668)
Sec. 8 Voucher Subsidy	<u>1,851,869</u>	<u>1,335,257</u>	<u>516,612</u>
Total	7,435,193	5,902,860	1,532,333

- The subsidies for both Public Housing and Section 8 both increased. The substantial increase in the Sec. 8 subsidy was due to the fact that we received more vouchers in the latter half of 2004 that more than doubled the number of vouchers that we administer.
- The substantial increase in the Capital Fund Program was due to the fact that work projects during FYE 12/31/04 progressed along at a much more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 12/31/04 than in FYE 12/31/03.
- The decrease in the Drug Elimination Grant is because HUD eliminated that program; the grant received in 2003 was the last of that type of grant. Similarly, although the ROSS grant program has not been eliminated, we were not awarded a new ROSS grant subsequent to the one that was concluded during 2004.

The following represents changes in the Asset section of the Balance Sheet:

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Change</u>
Cash & Investments	1,477,122	882,325	594,797
Total Current Assets, net of inter-program (due from)	1,737,883	1,426,186	311,697
Fixed Assets, Net of Depreciation	11,615,796	9,802,268	1,813,528
Total Liabilities, net of inter-program (due to)	524,986	886,541	(361,555)
Total Equity/Net Assets	12,828,693	10,341,913	2,486,780

- Cash and Investments increased by 67.4%. This can be primarily attributed to the considerable Operating Income generated by the Public Housing program. Also, with the additional revenue generated by the increased number of vouchers in our Section 8 program combined with our ability to limit staff increases to administer said vouchers, that program now contributes a great deal to the combined bottom line.
- Fixed Assets increased by \$1,813,528; this increase represents several capital projects funded through the Capital Fund Programs. These projects include a major comprehensive improvement at our senior building as well as the public housing developments (see details below). Although Fixed Assets actually increased by \$2,403,950, this

was offset by depreciation expense of \$585,222 and a net write-off of disposed equipment and miscellaneous adjustments totaling \$5,200.

- Total Liabilities decreased by 41%. This was primarily due to the reclassification of deferred revenue of \$290,234 at 12/31/03 to revenue in FYE 12/31/04. This deferred revenue represents fire insurance proceeds from prior years. We had been holding onto these proceeds until we could repair the units involved, thus the classification of deferred revenue through 12/31/03. However, we decided in 2004 to bid out the repairs of these units under the Capital Fund Program to support the renovation costs and therefore reclassified the insurance proceeds to operating revenue.
- Total Net Assets (Equity) increased by 24%. This increase is reflected in both Equity sections. Invested in Capital Assets increased by almost \$2,000,000, reflecting the increase in Capital (Fixed) Assets; Unrestricted Net Assets increased by approximately \$600,000, primarily reflecting the Public Housing Program's Operating Income.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Per Cent Change</u>
Revenues:			
Tenant Revenue	1,020,643	1,014,893	0.6%
Other Revenue	<u>345,962</u>	<u>52,053</u>	564.6%
Total PHA generated Revenue	1,366,605	1,066,946	28.1%
Operating Subsidies	5,191,911	4,880,271	6.4%
Capital Grants	<u>2,243,282</u>	<u>1,022,589</u>	119.4%
Total Revenue	8,801,798	6,969,806	26.3%
Expenses:			
Administrative	958,463	951,260	0.8%
Tenant Services	31,615	99,398	-68.2%
Utilities	809,051	668,508	21.0%
Maintenance	1,233,001	2,018,888	-38.9%
Guard and Police Services	224,428	201,217	11.5%
Employee Benefits	474,507	418,750	13.3%
General	489,115	428,804	14.1%
Extraordinary Items		79,334	-100.0%
Casualty Losses		(91,420)	-100.0%
Housing Assistance Payments	1,643,429	1,165,132	41.1%
Depreciation	<u>585,222</u>	<u>478,767</u>	22.2%
Total Expenses	6,448,831	6,418,638	0.5%
Operating Transfer to City	11,541	29,781	-61.2%
Net Increase (Decrease)	2,341,426	521,387	349.1%

Revenues:

Inkster Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 12/31/04, revenue generated by the Commission accounted for \$1,366,605 (or 16% of total revenue), while HUD contributions accounted for \$7,435,193 (or 84% of total revenue). Interest income and Other revenue remained relatively flat, except for the one-time reclassification of fire insurance proceeds previously discussed.

Expenses:

Total Expenses for FYE 12/31/03, excluding Transfers to City Government (PILOT) were \$6,418,638 while for FYE 12/31/04 the total was \$ 6,448,831. This represents just a 0.5% increase in our Operating Costs, an amount that is less than the inflation rate.

The cost areas that increased the most were:

	<u>FYE 12/31/04</u>	<u>FYE</u> <u>12/31/03</u>	<u>Per Cent</u> <u>Change</u>
Employee Benefits	474,507	418,750	13.3%
Bad Debt - Tenant Rents	40,506	2,598	1459.1%
Severance Expense	25,023	21,108	18.5%
Utilities	809,051	668,508	21.0%
Housing Assistance Payments	1,643,429	1,165,132	41.1%

The cost areas that decreased the most were:

	<u>FYE 12/31/04</u>	<u>FYE</u> <u>12/31/03</u>	<u>Per Cent</u> <u>Change</u>
Tenant Services	31,615	99,398	-68.2%
Ord. Maintenance Labor	297,841	344,761	-13.6%
Ord. Maintenance Materials	131,294	218,597	-39.9%
Ord. Maintenance Contract Costs	803,866	1,455,530	-44.8%
PILOT	11,541	29,781	-61.2%

Budget Analysis:

A Low Rent Public Housing Operating Budget for fye 12/31/04 was presented to and approved by the Board of Commissioners. We revised the budget late in the fiscal year and this revision was also approved by the Board of Commissioners. Actual results were in line with the revised budgeted amounts.

Entity-Wide Operational Highlights:

The Inkster Housing Commission provided the following housing for low- income elderly and low-income families:

	<u>FYE 12/31/04</u>	<u>FYE</u> <u>12/31/03</u>
Low Rent Public Housing	821	821
Sec. 8 Housing Choice Voucher	436	240

During FYE 12/31/04, Inkster Housing Commission maintained a lease-up rate (as adjusted for on-schedule mod units) of 89% in its Public Housing Program and a lease-up rate of 94% in its Section 8 program. These lease-up rates are under the levels set by HUD guidelines. The Section 8 lease-up rate should be within HUD guidelines by 12/31/05 as we get the new vouchers leased up. Although we continue to strive to maintain a lease-up rate of the HUD guideline of 97%, we continue to experience difficulties to generate adequate funds annually to totally renovate vacant apartments in the public housing developments through the Capital Fund Program. Therefore, IHC is seeking Revenue Bonding through the Michigan State Housing Development Authority in conjunction with several other Public Housing Commissions located in the State of Michigan. Upon funding securitization Inkster Housing Commission will complete the renovation of all apartments and lease vacant apartments from the Public Housing Waiting List currently consisting of more than two hundred low-income families.

During FYE 12/31/04, our Capital Fund Program work projects included:

- Senior Development: We entered into a contract totaling \$1,754,648 for a complete overhaul of the HVAC system in our high-rise. A total of \$1,173,750 was spent on this project during FYE 12/31/04. We also contracted for a complete overhaul of the fire suppression system, upgrading the Fire Alarm & Detection system as well as the automatic sprinkler system for a total cost of \$248,000 during FYE 12/31/04. Small balances remain on these two contracts which were completed during FYE 12/31/05.
- Public Housing Developments: The main improvement activities undertaken at each site included appliance replacements; increased and upgraded security lighting; roofing and siding improvements; adding handrails to porches (Parkside Development); vacant unit rehab; and other miscellaneous improvements.

Commission's Position

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Tony L. Love, Executive Director
4500 INKSTER ROAD
INKSTER, MI 48141

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax(989) 642-2092

Board of Commissioners
Inkster Housing Commission
4500 Inkster Road
Inkster, Michigan 48141

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Inkster Housing Commission as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inkster Housing Commission as of December 31, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

August 26, 2005

INKSTER HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

ASSETS

C-3015

CURRENT ASSETS

Cash	\$ 1,244,047
Accounts Receivable	172,164
Investments	233,075
Prepaid Expenses	88,597
Inter Program due from	<u>331,641</u>

Total Current Assets \$ 2,069,524

NON CURRENT ASSETS

Land	\$ 1,891,187
Buildings	21,800,987
Furniture, Equipment- Dwellings	485,656
Furniture, Equipment- Administrative	590,018
Leasehold Improvements	8,441,253
Accumulated Depreciation	<u>(21,593,305)</u>

Total Non Current Assets 11,615,796

TOTAL ASSETS \$ 13,685,320

INKSTER HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

LIABILITIES & NET ASSETS

C-3015

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	154,963
Accrued Liabilities		118,219
Accrued Compensated Absences		17,232
Tenants Security Deposit		101,062
Accounts Payable- Other Governments		11,541
Deferred Revenue		7,663
Inter-Program due to		<u>331,641</u>
<u>Total Current Liabilities</u>	\$	742,321

NON CURRENT LIABILITIES

Accrued Compensated Absences		<u>114,306</u>
<u>Total Liabilities</u>	\$	856,627

NET ASSETS:

Investment in Fixed Assets net of Related Debt	\$	11,615,796
Retained Earnings		<u>1,212,897</u>
<u>Total Net Assets</u>		<u>12,828,693</u>

TOTAL LIABILITIES & NET ASSETS \$ 13,685,320

The Accompanying Footnotes are an Integral Part of the Financial Statements

INKSTER HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2004

	<u>Business Type Activities</u>
<u>OPERATING REVENUE</u>	
Tenant Rental Revenue	\$ 907,572
Tenant Revenue-Other	113,071
HUD Grants	7,435,193
Interest Income	5,777
Other Income	<u>337,646</u>
 <u>Total Operating Revenue</u>	 \$ 8,799,259
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 1,278,687
Tenant Services	9,207
Utility Expenses	809,051
Ordinary Maintenance	1,409,692
Protective Services	224,428
General Expenses	<u>500,656</u>
 <u>Total Operating Expenses</u>	 <u>4,231,721</u>
 <u>Operating Income (Loss)</u>	 \$ 4,567,538
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Gain on the Sale of Fixed Assets	\$ 2,539
Housing Assistance Payments	(1,643,429)
Depreciation Expenses	<u>(585,222)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(2,226,112)</u>
 <u>Change in Net Assets</u>	 \$ 2,341,426
 Total Net Assets- Beginning	 <u>10,487,267</u>
 Total Net Assets- Ending	 \$ <u>12,828,693</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements

INKSTER HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,009,989
Payments to Suppliers	(5,103,783)
Payments to Employees	(926,889)
HUD Grants	7,435,193
Other Receipts (Payments)	<u>345,962</u>
Net Cash Provided (Used) by Operating Activities	\$ 2,760,472

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(2,398,750)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 361,722
Balance- Beginning of Year	<u>882,325</u>
Balance- End of Year	\$ <u>1,244,047</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 2,341,426
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	585,426
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	246,473
Investments	(233,075)
Prepaid Expenses	36,627
Interfund Due From	258,043
Changes in Liabilities Increase (Decrease):	
Accounts Payable	154,446
Accrued Liabilities	(115,223)
Security Deposits	(4,724)
Accounts Payable- Other Governments	(18,240)
Deferred Revenue	(257,632)
Interfund Due To	<u>(233,075)</u>
Net Cash Provided by Operating Activities	\$ <u>2,760,472</u>

The Accompanying Notes are an Integral part of the Financial Statements

INKSTER HOUSING COMMISSION
Notes to Financial Statements
December 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Inkster Housing Commission, Inkster, Michigan, (Commission) was created by ordinance of the city of Inkster. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 27-1-6	Low rent program	821 units
MI 28-V027	Section 8 Vouchers	517 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

Notes to Financial Statements- continued

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Notes to Financial Statements- continued

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits & investments are stated at cost which approximates market value.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 1,011,710
Petty Cash	250
Money Market Accounts	<u>232,087</u>
Financial Statement Total	<u>\$ 1,244,047</u>

Investments:

Certificates of Deposit	<u>\$ 233,075</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking					
A/C's	\$ 1,011,710	\$	\$	\$ 1,011,710	\$ 1,011,710
Petty Cash	250			250	250
Money Market	<u>232,087</u>			<u>232,087</u>	<u>232,087</u>
Total Cash	<u>\$ 1,244,047</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,244,047</u>	<u>\$ 1,244,047</u>
Investments:					
C/D's	<u>\$ 233,075</u>	<u>\$</u>	<u>\$</u>	<u>\$ 233,075</u>	<u>\$ 233,075</u>

Note 3: Accounts Receivable

Accounts Receivable (net) consist of the following:

Accounts Receivable- Tenants	\$ 32,299
Less- Allowance for Doubtful Accounts	(26,334)
Account Receivable-HUD	165,699
Accounts Receivable- Miscellaneous	<u>500</u>
Accounts Receivable (net)	<u>\$ 172,164</u>

Notes to Financial Statements, continued

Note 4: Prepaid Expenses

Prepaid Expenses consist of insurance premiums covering assets beyond the date of this audit, and health benefits paid for coverage after year end. The following represents prepaid expenses:

Prepaid Insurance Expense	\$ <u>88,597</u>
---------------------------	------------------

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,891,187	\$	\$	\$ 1,891,187
Buildings	21,800,987			21,800,987
Furniture & Equipment-Dwellings	318,280	167,376		485,656
Furniture & Equipment-Admin	585,567	4,451		590,018
Leasehold Improvements	<u>6,376,822</u>	<u>2,226,923</u>	<u>162,492</u>	<u>8,441,253</u>
	\$30,972,843	\$2,398,750	\$ 162,492	\$33,209,101
Less Accumulated Depreciation	<u>21,170,575</u>	<u>585,222</u>	<u>162,492</u>	<u>21,593,305</u>
	\$ <u>9,802,268</u>	\$ <u>1,813,528</u>	\$ _____	\$ <u>11,615,796</u>

Note 6: Accrued Liabilities

Accrued liabilities consist of the following:

Accrued Utilities	\$ 118,219
-------------------	------------

Note 7: Retirement.

The Commission has a non mandatory, Defined Benefit Plan (Plan), for all eligible employees. The Plan calls for 3% of annual wage contribution by all participants. Eligibility requirements are as follows: Full time employees, one year service. Plan assets and funding statistics are reported under a separate audit report.

Notes to Financial Statements- continued

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 62,181,551
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile	300,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 9: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 10: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Inkster Housing Commission

31-Dec-04

MI027

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	ROSS Grant 14.870	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	964,249	178,736	-	-	1,142,985
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits	101,062				101,062
100	Total cash	1,065,311	178,736	-	-	1,244,047
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-	6,178	159,521	-	165,699
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous					-
126	Accounts receivable- tenants - dwelling rents	32,299				32,299
126.1	Allowance for doubtful accounts - dwelling rents	(26,334)				(26,334)
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery					-
128.1	Allowance for doubtful accounts - fraud					-
129	Accrued interest receivable	500				500
120	Total receivables, net of allowances for doubtful accounts	6,465	6,178	159,521	-	172,164
	Current investments					-
131	Investments - unrestricted	233,075				233,075
132	Investments - restricted					-
142	Prepaid expenses and other assets	88,597				88,597
143	Inventories	-				-
143.1	Allowance for obsolete inventories					-
144	Interprogram - due from	331,641	-	-		331,641
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	1,725,089	184,914	159,521	-	2,069,524
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	1,891,187				1,891,187
162	Buildings	21,800,987				21,800,987
163	Furniture, equipment & machinery - dwellings	154,000		331,656		485,656
164	Furniture, equipment & machinery - administration	514,651	30,318	45,049		590,018
165	Leasehold improvements	4,109,338		4,331,915	-	8,441,253
166	Accumulated depreciation	(21,237,504)	(21,994)	(333,807)		(21,593,305)
160	Total fixed assets, net of accumulated depreciation	7,232,659	8,324	4,374,813	-	11,615,796
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	7,232,659	8,324	4,374,813	-	11,615,796
190	TOTAL ASSETS	8,957,748	193,238	4,534,334	-	13,685,320

	LIABILITIES AND EQUITY					
	LIABILITIES:					
	CURRENT LIABILITIES					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	149,963	5,000		-	154,963
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	-				-
322	Accrued compensated absences	17,232				17,232
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		-			-
332	Accounts Payable - PHA Projects					
333	Accounts payable - other government	11,541	-	-		11,541
341	Tenant security deposits	101,062				101,062
342	Deferred revenues	7,663				7,663
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	118,219	-			118,219
347	Inter-program - due to	-	172,120	159,521	-	331,641
310	TOTAL CURRENT LIABILITIES	405,680	177,120	159,521	-	742,321
	NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	114,306				114,306
350	TOTAL NONCURRENT LIABILITIES	114,306	-	-	-	114,306
300	TOTAL LIABILITIES	519,986	177,120	159,521	-	856,627
	EQUITY:					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-			-	-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	7,232,659	8,324	4,374,813		11,615,796
508	Total contributed capital	7,232,659	8,324	4,374,813	-	11,615,796
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	1,205,103	7,794	-	-	1,212,897
513	TOTAL EQUITY	8,437,762	16,118	4,374,813	-	12,828,693
600	TOTAL LIABILITIES AND EQUITY	8,957,748	193,238	4,534,334	-	13,685,320

Proof of concept

- - - - -

Depreciation Add Back

Inkster Housing Commission

31-Dec-04

MI027

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	ROSS Grant 14.870	TOTAL
Line Item #				-		
	REVENUE:	-	-			
703	Net tenant rental revenue	907,572				907,572
704	Tenant revenue - other	113,071				113,071
705	Total tenant revenue	1,020,643	-	-	-	1,020,643
706	HUD PHA grants	2,845,048	1,851,869	2,715,868	22,408	7,435,193
708	Other government grants					-
711	Investment income - unrestricted	5,777	-	-		5,777
712	Mortgage interest income					-
714	Fraud recovery					-
715	Other revenue	337,184	462	-		337,646
716	Gain or loss on the sale of fixed assets		2,539			2,539
720	Investment income - restricted					-
700	TOTAL REVENUE	4,208,652	1,854,870	2,715,868	22,408	8,801,798
	EXPENSES:					
	Administrative					
911	Administrative salaries	416,048	113,000	100,000		629,048
912	Auditing fees	6,250				6,250
913	Outside management fees					-
914	Compensated absences	9,963				9,963
915	Employee benefit contributions- administrative	246,816	51,000			297,816
916	Other operating- administrative	261,167	45,128	6,907	22,408	335,610
	Tenant services					
921	Tenant services - salaries					-
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services					-
924	Tenant services - other	9,207				9,207
	Utilities					
931	Water	279,419				279,419
932	Electricity	209,539				209,539
933	Gas	320,093				320,093
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	-				-
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	297,841				297,841
942	Ordinary maintenance and operations - materials & other	131,294				131,294
943	Ordinary maintenance and operations - contract costs	778,658		25,208		803,866
945	Employee benefit contributions- ordinary maintenance	176,691				176,691
	Protective services					
951	Protective services - labor					-

952	Protective services- other contract costs			224,428		224,428
953	Protective services - other					-
955	Employee benefit contributions- protective services					-
	General expenses					
961	Insurance premiums	423,586				423,586
962	Other General Expenses					
963	Payments in lieu of taxes	11,541				11,541
964	Bad debt - tenant rents	40,506				40,506
965	Bad debt- mortgages					-
966	Bad debt - other					-
967	Interest expense					-
968	Severance expense	25,023				25,023
969	TOTAL OPERATING EXPENSES	3,643,642	209,128	356,543	22,408	4,231,721
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	565,010	1,645,742	2,359,325	-	4,570,077
971	Extraordinary maintenance	-				-
972	Casualty losses - non-capitalized	-				-
973	Housing assistance payments		1,643,429	-		1,643,429
974	Depreciation expense	364,066	2,621	218,535		585,222
975	Fraud losses					-
976	Capital outlays- governmental funds	-			-	-
977	Debt principal payment- governmental funds					-
978	Dwelling units rent expense					-
900	TOTAL EXPENSES	4,007,708	1,855,178	575,078	22,408	6,460,372
	OTHER FINANCING SOURCES (USES)					
1001	Operating transfers in (out)	116,044		(116,044)		-
1002	Operating transfers out					-
1003	Operating transfers from/to primary government					-
1004	Operating transfers from/to component unit					-
1005	Proceeds from notes, loans and bonds					-
1006	Proceeds from property sales					-
1010	TOTAL OTHER FINANCING SOURCES (USES)	116,044	-	(116,044)	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER)	316,988	(308)	2,024,746	-	2,341,426
MEMO account information						
1101	Capital contributions					
1102	Debt principal payments- enterprise funds					-
1103	Beginning equity	-				-
1104	Prior period adjustments and equity transfers					-
1105	Changes in compensated absence liability balance (in the GLTDAG)					-
1106	Changes in contingent liability balance (in the GLTDAG)					-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)					-
1108	Changes in special term/severance benefits liability (in the GLTDAG)					-
1109	Changes in allowance for doubtful accounts - dwelling rents					-
1110	Changes in allowance for doubtful accounts - other					-
1112	Depreciation "add back"					-
1113	Maximum annual contributions commitment (per ACC)					
1114	Prorata maximum annual contributions applicable to a period of less than twelve months					
1115	Contingency reserve, ACC program reserve					
1116	Total annual contributions available					
1120	Unit months available	-				-
1121	Number of unit months leased	-				-

Equity Roll Forward Test
Calculation from R/E Statement
B/S Line 513

316,988 (308) 2,024,746
8,437,762 16,118 16,118

Sum of A:

Sum of B:

INKSTER HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3015 Operating Subsidies	\$ <u>2,845,048</u>
* <u>CFDA 14.156 Housing Assistance Programs</u>	
C-3099V Section 8 Rental Vouchers	\$ <u>1,851,869</u>
<u>CFDA 14.851 Resident Opportunity Supportive Service</u>	
C-3029 Resident Supportive Services	\$ <u>22,408</u>
* <u>CFDA 14.872 Capital Funds Projects</u>	
C-3029 Capital Funds Projects	\$ <u>2,715,868</u>
	\$ <u>7,435,193</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Schedule of Federal Awards, continued

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 62,181,550
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile Liability	300,000
Dishonesty Bond	30,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

INKSTER HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2004

The prior audit of the Inkster Housing Commission for the period ended December 31, 2003, contained two audit findings; the following represents the corrective action taken by the Commission:

Finding 03-1

Tenant Accounting Discrepancies-

Low Rent; everything other than income verification satisfied in current review- see finding.

Sec 8; income verification continues to be a problem, see finding.

INKSTER HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
December 31, 2004

Compliance

I have audited the compliance of Inkster Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. Inkster Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Inkster Housing Commission's management. My responsibility is to express an opinion on Inkster Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Inkster Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Inkster Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent:		
Tenant Accounting Discrepancies	04-1	Eligibility
Sec 8 Housing Choice:		
Tenant Accounting Discrepancies	04-2	Eligibility, Special Tests and Provisions

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control over Compliance

The management of Inkster Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Inkster Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

August 26, 2005

INKSTER HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2004

I have audited the financial statements of Inkster Housing Commission, Inkster, Michigan, as of and for the year ended December 31, 2004, and have issued my report thereon dated August 26, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Inkster Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Inkster Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note instances in financial reporting which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

August 26, 2005

INKSTER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Programs	X	
Capital Projects Funds	X	
Supportive Services:		
Resident Supportive Services;		
Training Assistance		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
Reportable condition(s) noted	_____ <u>X</u> Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

Schedule of Findings and Questioned Cost- continued

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number .</u>
Low Rent Public Housing	Yes	None	04-1
Housing Assistance Programs	Yes	None	04-2
Capital Projects Funds	Yes	None	N/A
Supportive Services	No	None	N/A

INKSTER HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
December 31, 2004

The following finding of the Inkster Housing Commission, for the year ended December 31, 2004, were discussed with the Director, Mr. Tony Love, in an exit interview conducted August 26, 2005.

Finding 04-1: Tenant Accounting Discrepancies-Low Rent Program

Low Rent Public Housing, 22 files tested:

- 5 files had incomplete citizenship forms
- 3 files lacked income verification
- 1 file lacked documentation for medical deduction
- 2 files had incomplete inspection reports
- 13 files were re-examined late

Recommendation

The prior years audit revealed income verification problems; the above demonstrates additional problems have developed in the past year, primarily the lateness of the required re-exams.

The above errors include missing and incomplete forms; third party verification problems, and non compliance with the re-exam requirement.

I recommend the Commission correct the findings above and continue to monitor the tenant accounting area to insure compliance.

Reply

Finding 04-2: Tenant Accounting Discrepancies-Section 8 Housing Choice Program

9 files were reviewed, the following discrepancies were noted:

- 1 file did not have a signed lease or Housing Assistance Payment (HAP) contract
- 2 files were not re-examined timely
- 4 files lacked third party verification of income
- 1 file did not have a rent reasonableness form
- 3 files used an incorrect utility allowance
- 1 file had the wrong payment standard

Recommendation

The above errors include missing and incomplete forms; third party verification problems, miscalculated allowances, and non compliance with the re-exam requirement.

The number of file discrepancies in a small sample indicates serious problems with the Section 8 Housing Choice Program. Only one of the 9 files tested did not contain at least one of the above deficiencies.

I recommend the Commission correct the above findings and review the remaining files to insure compliance.

Reply